



# ***CITY COUNCIL STUDY SESSION AGENDA REPORT***

MEETING DATE: FEBRUARY 25, 2020

ITEM NUMBER: 1

**SUBJECT:** DISCUSSION AND POTENTIAL CITY COUNCIL DIRECTION REGARDING 2021-2029 HOUSING ELEMENT UPDATE

**DATE:** FEBRUARY 5, 2020

**FROM:** PLANNING DIVISION/DEVELOPMENT SERVICES DEPARTMENT

**PRESENTATION BY:** BARRY CURTIS, DIRECTOR OF ECONOMIC AND DEVELOPMENT SERVICES  
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## **PURPOSE:**

This study session is the second study session to update the City Council on the status of requirements related to the 6th Housing Element Cycle and to provide updated information on the Regional Housing Needs Assessment (RHNA) process and potential strategies to prepare the required 2021-2029 Housing Element. The first study session on this topic was provided to the City Council on October 8, 2019.

## **RECOMMENDATION:**

Provide direction regarding the 2021-2029 Housing Element Update including: input regarding a potential appeal of the City's RHNA allocation; the development of an inclusionary housing ordinance; and preferred approaches to address the RHNA.

## **BACKGROUND:**

### **Recent Housing Related Legislation**

A substantial amount of legislation related to housing has been implemented by the state over the past several years (Attachment 1). The City Attorney's office will provide a brief overview of related legislation during the study session.

### **RHNA Process**

Costa Mesa is in the Southern California Association of Governments (SCAG) region which is the nation's largest metropolitan planning organization (MPO), representing six counties and 191 cities.

The Regional Housing Needs Assessment (RHNA) is mandated by State Housing Law as part of the periodic process of updating local General Plan Housing Elements. SCAG is in the process of developing the 6th cycle RHNA allocation plan which will cover the planning period of October 2021 through October 2029.

For each eight-year Housing Element cycle, SCAG allocates the regional RHNA among its member jurisdictions on a fair-share basis. To develop a methodology to allocate the regional RHNA, SCAG surveys all jurisdictions regarding local planning factors (“AB 2158 factors”). These factors include planning factors and constraints for each jurisdiction such as the jobs-to-housing relationship, infrastructure limitations outside a jurisdiction’s control, county policies to preserve agricultural or open space, and high housing costs. New for the upcoming 6<sup>th</sup> Housing Element Cycle is compliance with Assembly Bill 1771 (Bloom). SCAG is required to survey information referred to as “Assessment of Fair Housing” to be completed by any city or county that would address fair housing and social justice as part of housing elements or as required by HUD grants.

Once SCAG completes the RHNA allocations, each jurisdiction must update its General Plan Housing Element and demonstrate through sites and zoning analysis how it will accommodate the future housing needs and meet its local RHNA allocation. Housing Elements are reviewed by the California Department of Housing and Community Development (HCD), which determines and certifies whether a city’s Housing Element is in compliance with state housing law.

For the full background on the 5<sup>th</sup> and 6<sup>th</sup> Cycle RHNA process, please refer to the October 8, 2019 staff report at the following link:

<http://ftp.costamesaca.gov/costamesaca/council/agenda/2019/2019-10-08/Item-1.pdf>

### *RHNA Process Overview and Timeline*

The updated timeline for the 6<sup>th</sup> Cycle Housing Element process is as follows:

January 13, 2020	HCD approved RHNA methodology
February 24, 2020	Appeal Guidelines to be published (Government Code Section 65584.05) for RHNA Appeal Board
March 5, 2020	Approval of RHNA Methodology by SCAG’s Regional Council
April 2, 2020	RHNA distribution
45 days	Deadline to appeal RHNA by jurisdictions*
July 2020	RHNA appeal hearings
August 2020	Final draft RHNA allocation
October 2020	Adoption of final RHNA Allocation
October 2021	Housing Elements due to HCD

On August 3, 2019, SCAG released for public review three draft methodologies to distribute the regional RHNA on a fair-share basis to all member jurisdictions.

On August 22, 2019, HCD provided SCAG with the regional RHNA of 1,344,740 total dwelling units for the six-county SCAG region, which reflects the number of housing units the region must plan for in the 6<sup>th</sup> Housing Element Cycle covering the period between October 2021 and October 2029.

This number is very high relative to previous RHNA's and will present a significant challenge to many cities in the SCAG region. Specifically, HCD's RHNA for the SCAG region is broken down into four income categories as follows:

Overall RHNA for SCAG Region		
Income Category	Percent	Housing Unit Need
Very-Low	26.1%	350,998
Low	15.3%	206,338
Moderate	16.7%	225,152
Above-Moderate	41.8%	562,252
<b>Total</b>	<b>100.0%</b>	<b>1,344,740</b>

The City submitted two letters to SCAG during the development of draft methodologies dated September 12, 2019, and October, 4, 2019. In addition, after the fourth methodology was introduced by a coalition of cities and the County of Riverside, the City submitted a letter on November 12, 2019 stating several concerns with the new and unvetted methodology and the impact on the City (Attachment 2).

Costa Mesa and many other cities submitted letters to SCAG regarding the proposed allocations based on the current number of units and built out conditions. Despite the opposition of many jurisdictions to the latest methodology that allocated a very large number of units to cities such as Costa Mesa, on November 14, 2019, SCAG moved forward with the decision to adopt the methodology on the basis that the methodology advances regional sustainability goals through its alignment with the Draft Connect SoCal, SCAG's Regional Transportation Plan/Sustainable Communities Strategy (RTP/SCS) for 2020-2045. It was also noted that transit and job accessibility factors received added weighting in the Draft Methodology as they contribute effectively to both state and regional goals.

On January 13, 2020, HCD confirmed the unvetted methodology presented by SCAG. Please refer to this link for more information:  
<http://scag.ca.gov/programs/Documents/RHNA/RHNA-Draft-Methodology.pdf>

This latest methodology (dated February 13, 2020) resulted in a significant increase in the number of units allocated to Costa Mesa; a total of 11,727 units broken down as follows:

<b>RHNA For Costa Mesa</b>		
Very-low income (<50% of AMI)	2,910	24.8%
Low income (50-80% of AMI)	1,789	15.3%
Moderate income (80-120% of AMI)	2,083	17.8%
Above Moderate income (>120% AMI)	4,945	42.1%
<b>Total</b>	<b>11,727</b>	

On February 3, 2020, SCAG presented the RHNA appeals procedures which include the following important dates:

February 24, 2020	RHNA Subcommittee considers Final RHNA Methodology and Appeal Procedures
March 5, 2020	SCAG's Community, Economic and Human Development Committee (CEHD) considers the Final RHNA Methodology and Appeal Procedure
April 2, 2020	SCAG Regional Council releases draft RHNA allocation
Early April 2020	Start of Appeal filing period

SCAG's presentation can be found here:

[http://www.scag.ca.gov/programs/Documents/RHNA/RHNA020320\\_AppealWorkshopPresentation.pdf](http://www.scag.ca.gov/programs/Documents/RHNA/RHNA020320_AppealWorkshopPresentation.pdf)

City staff is prepared to submit an appeal request to SCAG during the upcoming appeal period, unless directed otherwise.

### Housing Element Update Process

The Housing Element update process is estimated to take 8-12 months to complete. The City will need to budget and retain a consultant to prepare the Housing Element update and the required CEQA document. The process will also include an extensive public outreach process and workshops. In anticipation of this extensive process, staff will release a Request for Proposals (RFP) in late February seeking a qualified consultant to prepare the Housing Element update.

Adopting a Housing Element requires a General Plan Amendment and is subject to at least one public hearing each by the Planning Commission and the City Council. The adopted General Plan update is required to be submitted to HCD for certification by October 2021. Following the adoption, the City will need to follow up with Zoning Code and other policy amendments related to implementation of programs and policies outlined in the Housing Element.

Given the large anticipated RHNA allocation and to meet the requirements of state Housing Element law related to identifying adequate sites to house the RHNA, the City may need to identify areas to rezone at a minimum density of 30 dwelling units per acre

(HCD's minimum density necessary to accommodate affordable housing) to be considered adequate sites to accommodate the very low and low income component of the RHNA.

As previously indicated, the RHNA appeals process will begin in April of this year, with the adoption of the final RHNA allocation in October 2020. To be compliant, Costa Mesa is required to submit an updated Housing Element to HCD by October 2021 and to submit an annual status report in each April to demonstrate progress toward meeting the local RHNA.

It should be noted that the City is obligated to provide zoning and incentive opportunities for housing development, but is not itself required to produce housing - actual construction is left to the marketplace. To stay compliant the City must annually submit the housing production progress to HCD.

### *SB 2 Funds*

The City submitted a grant application for the maximum \$310,000 in SB-2 planning funding available through HCD. The grant was requested to update the Housing Element and, update the Accessory Dwelling Unit (ADU) ordinance and develop guidelines, and streamline planning and plan check process with more extensive electronic submittals and reviews. Staff was notified on February 5 that the grant application has been approved and will start working with HCD to finalize the process.

### *Housing Units under Current General Plan*

With accumulation of the available housing units entitled in the vacant sites and throughout the City either through an urban plan or a specific plan, the City's General Plan build out allows up to an additional 4,168 new housing units as itemized below.

<b>Vacant and Underutilized Sites</b>			
<b><u>Site</u></b>	<b><u>Acreage</u></b>	<b><u>Allowable Density/ Units</u></b>	<b><u>Potential Units</u></b>
Sakioka Lot 2	33 acres	660 units or 1.0 FAR 20-80 du/acre	660 units – development needs to be based on 1,062 AM and 1,407 PM trip budget
Home Ranch	43.6 acres	None 1,200,000 SF of Office Use at 0.64 FAR	Development needs to be within trip budget for the site of 1,860 AM and 1,788 PM trips
		<b>Total</b>	<b>660 units</b>

<b>Sites with Overlays Entitled with Residential Units</b>			
<b><u>Site</u></b>	<b><u>Acreage</u></b>	<b><u>Allowable Density/ Units</u></b>	<b><u>Potential Units</u></b>
Newport Blvd. Specific Plan	68.4 acres	17.4 du/acre	Entitled in the past 20 years: • 2080 Newport Blvd. – 91

			senior SRO units (approved in 2001) • 115 E. Wilson - 5 units (approved in 2002) • 2460 Newport Blvd. - 14 units (approved in 2006) • 2278 Newport Blvd. - 11 SRO conversion (approved in 2010) <i>159 units remaining*</i>
North Costa Mesa Specific Plan (Town Center)	approx. 37 acres	535 units Site specific densities over 30 du/acre	Entitlements are subject to development agreements Pacific Arts Plaza – 180 units Segerstrom Town Center – 275 units OC Museum site – 80 units <i>535 units remaining</i>
Fairview Development Center	102.6 acres	582 units (total) 332 units at 40 du/ac	None entitled <i>582 units remaining</i>
SoBECA	39.2 acres	450 units 40 du/acre	62 units entitled <i>388 remaining</i>
Residential Incentive Overlay (Harbor Blvd.)	9.7 acres	388 units 40 du/acre	200 units entitled <i>188 units remaining</i>
Residential Incentive Overlay (Newport Blvd.)	2.13 acres	85 units 40 du/acre	None entitled <i>85 units remaining</i>
Harbor Blvd. Mixed Use Overlay	24.5 acres	491 units** 40 du/acre	None entitled <i>491 units remaining</i>
19 West Urban Plan	129 acres	335 units**  20 du/acre	4 units entitled 49 units built <i>282 units remaining</i>
Mesa West Bluffs Urban Plan	277 acres	719 units** 20 du/acre	457 units built <i>262 units remaining</i>
Mesa West Residential Ownership Overlay	238 acres	617 units** 20 du/acre	81 units built <i>536 units remaining</i>
		<b>Total</b>	<b>3,508 units</b>

\* Total of 178 units (15% redevelopment assumption)

\*\* Based on assumption of a total increase of 1,671 units as noted in the traffic study in the Negative Declaration for the Urban Plans (it includes approx. 13% of maximum development potential at 20 du/acre)

### *Potential Housing Site Shortfall*

**Very Low and Low Income RHNA:** Sites to accommodate the very low and low income RHNA allocation of the RHNA must be zoned at a minimum of 30 dwelling units per acre. As shown above, up to an additional 4,168 new housing units can be accommodated under the existing General Plan. Of these, a maximum of 2,019 units are zoned at a minimum of 30 dwelling units per acre and could be eligible to be considered sites to house the 4,704 very low and low income units necessary to meet the City's expected RHNA. However, it may be difficult to get HCD approval for all 2,019 of these units, as the overlays have been in place for many years, with little to no

development activity in the recent years. In all, it seems possible the City may only be able to count about half of these potential units. Accordingly, if the preliminary RHNA remains unchanged, the City may need to rezone land at a density of 30 dwelling units or more to accommodate approximately 2,700 to 3,700 low and very low income units. At 30 dwelling units per acre, this would equate to about 90 to 120 acres of land to be rezoned.

*Moderate and Above Moderate Income RHNA:* A total of 7,030 dwelling units would be required to meet the moderate and above moderate income targets of the preliminary RHNA. Based on the information above, there are at least 2,149 units in the General Plan that could count toward the moderate and above moderate RHNA portions of the next Housing Element cycle. If any of the 2,019 units potentially eligible for very low and low income levels are determined by HCD to be unacceptable for those income levels, those units would be added to the 2,149 units eligible for moderate and above moderate income levels. Accordingly, as a worst case scenario, the City would also need to zone or upzone additional land to accommodate 4,881 units at any density desirable by the City. Obviously, the higher density, the less acreage of land would be affected. ADUs will likely also count toward satisfying the moderate and above moderate income RHNA, and to the extent they are accepted by HCD, such units would reduce the need to rezone or upzone additional land to address these components of the RHNA.

### Housing Element Siting Opportunities

#### *Accessory Dwelling Units (ADUs)*

Per recent state legislation, accessory dwelling units (ADU) can be counted toward the RHNA on a 1-to-1 basis, including the affordable components where the City can show such units are rented within applicable affordability limits.

On January 1, 2018, revised state ADU requirements went into effect. Since that time the City has approved a total of 17 ADUs. On January 1, 2020, major revisions to ADU laws took effect which, in most cases, preempt a local government's ability to require minimum lot sizes and unit sizes, owner occupancy, most setbacks and parking. As a result of these major revisions, staff estimates development of an increased number of ADUs over the 8-year Housing Element cycle.

#### *Potential Strategies to Provide Adequate Housing Sites*

To meet the RHNA, there are a number of strategies available to the City to add housing opportunities. These include, among others:

*Urban Plan and Residential Incentive Overlays:* Continued use of the Urban Plan and Residential Incentive Overlays along with potential revisions to these plans remain a viable options to address a portion of the anticipated RHNA, potentially including sites zones at densities greater than 30 dwelling units per acre.

*Potential Opportunity Sites:* Potential opportunity sites exist where the reconsideration of existing entitlements or re-use to add development intensity could occur. Such sites

include One Metro West, Sakioka Lot 2, and even the potential to reconsider the Home Ranch site. Sakioka Lot 2 and the Home Ranch site are both entitled, so any revisions to those sites would require approval and participation of the property owners and would be subject to Measure Y. Similar to the proposed One Metro West project, the City could also consider allowing additional residential uses north of the I-405 and within the Airport Industrial Center.

*Fairview Developmental Center:* The site is currently permitted for up to 582 residential units with a mix of 250 single family units (6 dwelling units per acre on a minimum of 50 acres) and 332 multiple family units (40 dwelling units per acre). Without changing the amount of land allocated to residential uses, additional units could be accommodated at this site through converting some of the single family acreage to 30-40 dwelling units per acre. Other options could also be considered to create additional dwelling units at this site. On January 21, 2020, the Costa Mesa City Council recommended a high level vision for housing at the site that included 1,500 housing units at mixed income levels.

*Density Bonus:* The City's density bonus requirements are consistent with the state law that allows an increase in the maximum density, if a developer meets certain minimum criteria by providing affordable housing. In order to encourage the development of additional affordable housing, staff recommends the City consider granting additional density bonuses above the state-required minimum of 35 percent for projects that provide additional affordable units above minimum requirements.

*Motel Conversions:* The City Council has developed a policy for motel room conversions to Single Room Occupancy (SRO) or Family Room Occupancy (FRO) units. However, only two projects have used this policy, both on Newport Boulevard: (2080 Newport Boulevard – 91 units of senior SROs which include 71 converted motel rooms and a 20-unit addition and 2278 Newport Boulevard which includes conversion of 11 motel rooms to SROs) for a total of 102 units. The SRO policy includes a minimum size of 400 square feet for motel room conversion to allow for a kitchenette and other studio-type amenities. It may be appropriate to reconsider this policy to provide more incentives and more flexible standards.

#### *Potential Affordable Housing Policies*

*Inclusionary Housing Ordinance:* In order to develop programs to meet the lower income RHNA requirements, the City Council may wish to begin exploring an inclusionary housing ordinance. Such a program could require new residential development to provide a certain percentage of affordable units or, as an alternative, to pay an in-lieu fee that the City could use to develop affordable units, likely in conjunction with an affordable housing developer.

Over the past two decades, more and more cities across the state have adopted inclusionary housing ordinances to ensure housing is provided for all economic segments of their communities. From discussions with other local cities, it appears that many are at least considering adopting some form of inclusionary housing ordinance to, among other things, address the anticipated 6<sup>th</sup> cycle RHNA allocations. The Local Government Commission has published a best practices white paper on inclusionary housing titled: *Meeting California's Housing Needs: Best Practices for Inclusionary*



Housing (Attachment 3). On October 8, 2019, the City Council held its first study session regarding housing issues in advance of the development of the 6<sup>th</sup> Cycle Housing Element update and expressed interest in considering implementation of an inclusionary housing ordinance.

Staff recommends the City move forward with preparation of a draft inclusionary housing ordinance. With City Council direction, staff will complete the ordinance for consideration by the Planning Commission and City Council this spring. In keeping with the best practices white paper, staff recommends the City consider establishing an affordable housing requirement of 15 percent for all new residential development, split equally between very low and low income units. To achieve higher percentages of affordable housing, staff recommends incentivizing affordable housing production beyond 15 percent through enhanced density bonuses as discussed below.

Another important component to consider in conjunction with an inclusionary housing ordinance is whether to exempt certain projects from the requirement to provide inclusionary units onsite, and to allow such projects to pay an in-lieu fee instead. Due to the costs and difficulty for smaller projects to provide inclusionary housing onsite, staff recommends that an inclusionary housing ordinance include an exception for smaller projects (40 units or less or other threshold as determined appropriate) that would allow them to pay an in-lieu fee. Staff would then develop an in-lieu fee program with the intent to provide the same number of units otherwise required through a partnership with a non-profit affordable housing developer.

Should the Council direct staff to proceed with the development of an inclusionary housing ordinance, staff would request direction on the percentage and income levels to be required, as well as whether to include an in-lieu option for smaller projects. These can be revised through the public hearing process, as needed.

Enhanced Density Bonus: As discussed above, staff recommends the City consider granting additional density bonuses above the state-required minimum of 35 percent for projects that provide additional affordable units above minimum requirements. As an example, should the City adopt an inclusionary housing ordinance that requires 15 percent of new units be affordable to very low and low income households, the City could grant a density bonus in excess of 35 percent for each additional percent of affordable housing included (e.g., for providing 20 percent affordable units, a project could be eligible for a 50 percent density bonus). Such an approach could incentivize a higher percentage of affordable units that might otherwise be required under an inclusionary housing ordinance.

### Housing Element Challenges

The Housing Element update process must be completed within a very aggressive time frame. Accordingly, staff believes the City Council should begin to consider approaches to address potential issues and challenges in addressing the local RHNA such as: up-zoning and rezoning; further updates to the Accessory Dwelling Unit (ADU) ordinance; increasing density in Urban Plan areas to meet the minimum affordability requirement of 30 du/acre per HCD and, whether to consider new tools to incentivize affordable housing such as an inclusionary housing ordinance, among other options.

In addition, it appears that Measure Y will present a major challenge in developing a certifiable Housing Element. While the state-required Housing Element update itself is exempt from Measure Y, any rezoning necessary to meet the RHNA allocation for Costa Mesa appears to be subject to the requirements of Measure Y. Should the City fail to achieve Housing Element certification, sanctions such as ineligibility for state housing and sustainability grants and the threatened loss of transportation funding, is likely. This is important as the City currently receives approximately \$5 million per year in transportation funding from the state which currently funds the City's streets, curb and gutter repair, active transportation and other critical infrastructure projects.

In addition to expected difficulties in obtaining Housing Element certification under Measure Y, it appears Measure Y may present an impediment to developers actually developing housing because of the time, cost and uncertainty arising from the need for a ballot measure requiring voter approval. For example, if approved by the City Council, the proposed One Metro West project with 1,057 units may be subject to a vote under the provisions of Measure Y. This project is a large development and the applicant has committed significant funds to meet the requirements of Measure Y. However, for smaller projects, such funds may not be available, thereby making it difficult for the City to complete a certifiable Housing Element and/or to show significant progress toward meeting the City's local RHNA each year as required by state law should the City achieve Housing Element certification. Staff has already seen a number of interested developers choose to invest in other communities rather than risk the time, cost and uncertainty of processing a request through Measure Y.

### **ALTERNATIVES:**

No alternatives were considered for this study session.

### **FISCAL REVIEW:**

There are no costs associated with this study session. Future actions necessary to develop and adopt the required Housing Element update will result in direct costs to the City (e.g., Housing Element update consultant) and the potential for other costs, such as costs related to additional services necessary to serve additional housing. These issues will be considered and addressed in conjunction with future actions.

### **LEGAL REVIEW:**

This report has been reviewed and approved as to form by the City Attorney's Office.

### **COUNCIL GOALS AND PRIORITIES:**

The study session addresses City Council Goals 4(c) and 4(d) as they relate to anticipating and planning for the new RHNA and the required Housing Element update in a manner that will take into consideration protection of traditional suburban neighborhoods.

## **CONCLUSION/ SUMMARY:**

The City must update its Housing Element by October 2021 by including programs and sites to meet the RHNA requirements.

Staff is providing this information in advance of the final RHNA allocation to provide the City Council with an early opportunity to consider options to address the forthcoming RHNA. The Council may provide feedback to staff to return to the Council with additional information at a subsequent meeting and/or to prepare a draft inclusionary housing ordinance. In addition, staff is also seeking City Council direction on appealing the RHNA allocation once the appeal period starts.

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- Attachments:
1. [Recent Housing Related Legislation](#)
  2. [City's Comment Letters to SCAG](#)
  3. [Best Practices for Inclusionary Housing](#)